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June 13, 2006

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SUBJECT: AUDIT OF RISK MANAGEMENT'S CLAIMS PROCESSING OF LIABILITY AND WORKERS' COMPENSATION CLAIMS

Introductory Remarks

In compliance with the Memorandum of Understanding (MOU), dated August 23, 1991, we have completed a periodic review of controls over claims processing of Liability and Workers' Compensation claims, in accordance with the standards developed by the Institute of Internal Auditors.

Scope of Audit

The purpose of this audit is to determine if control activities used by Risk Management to process Liability and Workers' Compensation claims payments by electronic data interface with the County's Financial Accounting System (FAS) are adequate to allow the Auditor/Controller-Recorder's Controller Division to process those claims payments without supporting documentation. Our review was limited to the system of internal controls and procedures related to Liability and Workers' Compensation claims payments for the period July 1, 2004 through June 30, 2005. We tested sixty Liability and sixty Workers' Compensation claims for compliance with department policies, procedures, and the Memorandum of Understanding dated August 23, 1991.

Results of Audit

In our opinion, the internal controls over the Liability and Workers' Compensation claims payments are adequate, except for the condition we noted that requires management's attention. However, our study and evaluation of the system of internal controls would not necessarily disclose all material weaknesses in the system. The condition noted that requires management's attention is discussed under the Current Year's Findings and Recommendations Section below.

STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS

The recommendations contained in the prior audit report dated July 28, 2005 relating to findings number 2-3 were adopted. The following is the prior year finding that still occurred in the audit period of 7/1/04 to 6/30/05.

Finding 1: Prior year finding #1

Discrepancies identified between the accounting systems during the reconciliation process were not resolved.

Prior Recommendations

Remind staff the importance of performing reconciliations in a timely manner. Monthly reviews and approvals of reconciliations should be performed promptly to ensure that the reconciliation process is functioning as intended. Provide training to all staff involved.

Current Status

There were no discrepancies for the period of 7/1/04 to 6/30/05, although, reconciliations were not being performed in a timely manner. This finding was the result of reconciliations not being prepared timely. Although the finding was implemented, the recommendation was not.

Further Recommendation

See current finding #1.

Auditee's Response

See current finding #1.

CURRENT YEAR'S FINDINGS AND RECOMMENDATIONS

Finding 1:

Reconciliation controls could be improved

Reconciliations of FAS with Risk Management's Automated Claims System are a fundamental element of internal control that helps to detect errors, omissions, and fraudulent activity. Current standard practice of Risk Management requires a monthly reconciliation between FAS and ACS along with minimum documentation requirements.

During our testing of the reconciliations, we noted eleven reconciliations were not prepared in a timely manner and one reconciliation did not meet the minimum

documentation requirements. Operating personnel stated this occurred due to employee turnover and increased workload.

These internal control weaknesses can result in errors, omissions, and fraudulent activity not being discovered in a timely manner, or not being discovered at all.

Recommendation

The Director of Risk Management should ensure reconciliations of FAS and ACS are completed at the end of each month.

Auditee's Response

We understand the importance of keeping up with this task on a monthly basis. The Fiscal Section experienced the departure of the Accounting Technician and a Fiscal Assistant in a relatively short period of time. Other fiscal staff took over this task as time permitted. Both vacancies have been filled, and with an additional Fiscal Assistant this task will be kept current once training is complete. The reconciliation will be signed-off by the Accountant I in addition to the current reviewers.

Acknowledgements

We wish to thank the management and staff of Risk Management for their assistance and cooperation throughout the audit.

Respectfully submitted,

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Auditor/Controller-Recorder

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